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UNCLAS SECTION 01 OF 02 YEREVAN 001936

SIPDIS

SENSITIVE

STATE FOR EB/CBA, EUR/CACEN, EUR/ACE
USTR FOR KATRIN KUHLMAN
DHS FOR JANET LABUDA

E.O. 12958: N/A

TAGS: [ECON](#) [EAID](#) [ETRD](#) [AM](#)

SUBJECT: ARMENIA CONCERNED OVER US CUSTOMS ACTIONS

Refs: A) Labuda/Gudie email 8/30/2004

B) Labuda/Gudie telecon 8/30/2004

C) Letter from U.S. Customs to Hilltop Industries re:
detention number 0216754

Sensitive but unclassified. Please protect accordingly.

11. (U) This is an action request. See paragraph 8.

SUMMARY

12. (SBU) Six containers of clothing shipped from Armenia are being held by U.S. Customs (ref A). The containers hold clothing purportedly produced by two of Armenia's largest textile plants. U.S. Customs suspects that the garments may have been produced outside of Armenia and that their origin has been falsified to avoid quota limits. The American importer refuses to ship any more products from these plants, DavGar and Hed Hayas, or give any more orders to the plant until the dispute is resolved. Factory owners and workers are getting nervous about their jobs and have called on the Government of Armenia to intervene; on August 24, Deputy Minister of Foreign Affairs Ruben Shugarian appealed to the Embassy to intervene for the release of the containers. Deputy Minister of Trade Tigran Davtyan told us that he intends to raise this issue with USTR representatives during the upcoming Trade and Investment Panel in Washington. During Emboff's visit to the factories, managers told us they were considering bussing employees to Yerevan to protest at the Embassy. End Summary.

THESE ARE REAL FACTORIES

13. (SBU) While we cannot confirm with complete certainty that the goods held by U.S. Customs were produced in Armenia, it is clear that these factories do make clothing from imported rolls of fabric and do export the lion's share of that product to a single American client, Prestige Apparel. We visited both factories and have seen the entire production process -- from rolled fabric to finished product -- involving hundreds of workers, machines, and thousand of items of clothing. Our contact with the factories predates this matter: USAID administers a technical assistance project, through Development Alternative International (DAI), that assists one of the plants in marketing and business development and, among other things, helps them meet international standards of records so as to avoid export problems.

STOCK IS BUILDING UP, FACTORIES MAY CUT WORKERS

14. (SBU) On a recent visit we saw a storeroom where two containers of product were being stored because the American importer refuses to export the product until his other shipments clear. The manager of Hed Hayas told us that they only had fabric to run the factory for another two weeks before he would cut forty percent of his staff. Dav Gar did not talk to us about cutting staff but noted that currently 100 percent of his production was for Prestige Apparel.

ARMENIAN COUNTRY OF ORIGIN CERTIFICATES NOT HONORED

15. (SBU) Deputy Minister of Trade Tigran Davtyan points out that the Chamber of Commerce and Industry of the Republic of Armenia has the government-sponsored monopoly on issuing country of origin certificates for goods made in Armenia. He told us that he is disturbed that these were not honored although no one has made any effort to verify the validity

of the certificate with the Chamber of Commerce or the procedures for its issuance with the Ministry of Trade.

FIX THIS OR TELL THEM WHY WE HAVE A REAL CASE

16. (SBU) While the Ministry of Trade has admitted to us that they cannot personally vouch for the shipments that are actually being held, it is clear that they believe that the clothes did originate from these two well-known factories in Armenia. Dav Gar and Hed Hayas have operated since Soviet times and together employ more than 2,000 workers, which in Armenia is enough to make them well known. The ministry told us that the last time U.S. Customs held a shipment on suspicion of transshipment in March and April of 2004, it was another well-known Armenian firm, and U.S. Customs ultimately released the shipment and did not pursue the case. The Ministry is concerned that holding the shipment another week will endanger the onward sales contracts and will discourage American importers from using Armenian textile factories. We have agreed with the Ministry of Trade that we will work together to implement a system where, in the future, U.S. Customs can check the validity of Certificates of Origin issued in Armenia and can trust that the certificates were issued pursuant to appropriate rules of origin subject to sufficient oversight and control (ref. B).

17. (SBU) On August 12, U.S. Customs sent a letter to the importer requesting more "production records" from Hed Hayas, and attached the U.S. code specifying which records U.S. law requires for import (ref. C). Factory managers and the Deputy Ministry of Trade have commented to us that they have already sent sufficient production records to U.S. Customs, and the broad request for "production records sufficient to establish the country of origin" is vague and subjective.

ACTION REQUEST

18. (U) This detention has already become a bilateral issue and has the potential to become a more serious irritant. Post requests that appropriate agencies review this case to determine whether the continued detention is appropriate. Following that review, we request instruction on substance for a credible response to the GOAM. This response should explain why the U.S. believes these factories do not produce the product, mix the product with transshipped clothes, or are being used as a front for other transshipped clothes. Please also advise on how to proceed in order to create a channel of communication whereby Certificates of Origin issued in Armenian can be verified and trusted by the U.S. Customs Service.
EVANS